



**Director
Central
Intelligence**

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National Intelligence Daily

**Tuesday
17 February 1987**

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SURINAME:**Drastic Measures**

Head of Government Bouterse may have begun a major military offensive that will increase chances for a new wave of rural black atrocities, and he reportedly is contemplating new economic measures that would spur more public dissatisfaction with his regime.

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Late last month, the Army acquired two military helicopters that apparently will be used in a major offensive against rebel strongholds. ~~A US Embassy report says a local government official recently warned rural black villagers that failure to evacuate the Saramacca area would result in their deaths.~~

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The helicopters may have already been used against civilian targets. ~~Earlier this month, according to the US defense attaché, at least two villages were burned to the ground along the Cottica Rivier north of Moengo. A Dutch press report claims that dozens of people were killed.~~

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~~The rebels reportedly are considering an attack on the bridge at Carolina, and—according to unconfirmed press reports—have threatened to attack the capital.~~

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~~Suralco's damaged alumina refinery at Paranam will remain closed for at least four months.~~

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~~The closure could cost the government as much as \$10 million a month in lost foreign exchange earnings.~~

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Comment: Bouterse probably believes that Suriname's growing economic crisis justifies decisive and even brutal action against the rebels and their rural black supporters. Although the new helicopters will increase the Army's ability to strafe rebel strongholds, they are too small to allow rapid troop deployment and will not significantly improve the military's counterinsurgency capabilities. The fear of reprisals will probably keep all but the militant bauxite workers from seriously challenging the regime in the next few months.

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**NORTH YEMEN-
SOUTH YEMEN:**

Push To End Deadlock

Sanaa appears to be making another effort to break the stalemate with Aden over the South Yemeni exile issue but is also looking for ways to keep the exile movement alive.

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according to the US Embassy in Sanaa, North Yemeni Foreign Minister Iryani confirmed that talks had taken place involving the Foreign Ministers, the Unity Affairs Ministers, the Chiefs of Staff of both countries, and representatives of the exile movement.

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Comment: Aden and Sanaa have been under heavy Soviet pressure to resolve their differences, and the talks appear to represent a serious effort toward that end. The participation of the South Yemeni Deputy Armed Forces Chief of Staff, who has ties to one of the more powerful factions in Aden, suggests Aden may be ready to compromise.

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North Yemen apparently is increasingly concerned about the political and economic costs of supporting the exiles. It also is worried that the continued fragmentation of the exile movement will erode what little bargaining power Sanaa has left. North Yemen realizes Ali Nasir is a spent force and is looking for alternatives.

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IRAN:**Popular Reaction to War Developments**

Iraqi air attacks on cities and continuing economic problems in Iran have sparked small protests but do not appear to have seriously eroded support for the war. [redacted]

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Tehran is exploiting last month's battlefield success and domestic anger at Iraqi airstrikes on civilian targets to increase its military recruiting. [redacted]

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[redacted] Iranian media publicize every Iraqi airstrike and invariably draw attention to the number of civilian casualties. [redacted]

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The regime is also benefiting from an easing of economic hardships. [redacted] power outages in Tehran have decreased from a peak of 11 hours a day to about six. [redacted]

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[redacted] Recent improvements in heating fuel supplies and a relatively mild winter have lessened the impact of earlier heating fuel shortages. [redacted]

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There are some signs of discontent, however. [redacted]

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[redacted] despite the small improvement in economic conditions, most Iranians continue to suffer from food shortages and extremely high unemployment and inflation rates. [redacted]

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[redacted] sporadic antiwar protests during the past month, including one by normally proregime Tehran University students. [redacted]

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Comment: The government retains enough popular support to prosecute the war aggressively. Tehran must almost certainly show progress in the war, however, to prevent festering discontent from becoming a more serious problem. It would take sizable antiwar or economic protests in such areas as southern Tehran—a bulwark of regime support—to prompt ruling clerics to rethink their war strategy. [redacted]

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Top Secret**WESTERN EUROPE: Attempts at Economic Cooperation**

The impact that developments in the currency markets are having on economic growth in Western Europe and the prospect of increased US trade protectionism have caused rifts in European economic cooperation that key figures in Bonn and Paris are trying to repair.

French Finance Minister Balladur, according to press reports, recently proposed a plan to the EC Monetary Committee that would improve support for European Monetary System exchange rates by West European central banks. The plan would also try to arrange for better assessments of the economic policies of EC members and also to define appropriate levels for the dollar and the yen with respect to the EMS.

Comment: Genscher probably hopes that such a conference would improve relations between West Germany and its partners in Western Europe, which have been strained by the recent realignment of the EMS. Balladur's call for better organized intervention in the currency markets reflects the fears of most EC members that a further decline in the dollar might heighten tensions both within the EC and between the US and the EC.

The French hope that the slowing of West Germany's economic growth and the strong showing in the recent West German election of Genscher's party, the Free Democrats, which advocates a more expansionist economic policy, will lead to greater West German flexibility on policy cooperation in the EC and on exchange rates.

Kohl's party, the Christian Democrats, may be cool to both proposals, however, despite their potential for shifting attention from increasingly contentious economic disputes between West Germany and the US. The Christian Democrats almost certainly wish to avoid any formal discussions that could degenerate into renewed criticism of Bonn's reluctance to stimulate economic growth or to embrace a less flexible regime for exchange rates.

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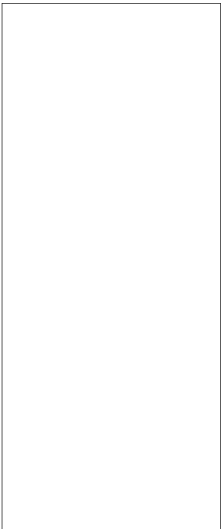
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USSR-EASTERN EUROPE: Copying Western Microelectronics

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The East European countries and the USSR are engaged in a program designed to duplicate the most advanced Western military integrated circuit technologies

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The Soviets reportedly launched the program in 1981 and in 1984 assigned production equipment development goals

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As of late 1986, most tasks had been allocated, but no country had accepted responsibility for the most difficult technologies

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the production technology goals of the program are the same as those openly published for the very-high-speed integrated circuit program of the US Department of Defense.

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Comment:

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Because Soviet and East European microelectronics production capabilities are now falling further behind those of the West, instead of continuing to catch up as they did through the early 1980s, this program will probably trail US developments by eight to 10 years. The program will also be delayed by reported distrust among the participants and their reluctance to accept responsibility for difficult tasks.

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CHINA: Reports of Stealth Development

Beijing's interest in Stealth technology is substantiated by recent press reports about China's Stealth research, but the level of development probably remains low. Late last month, a provincial news service claimed that China has mastered the practical and theoretical aspects of Stealth technology, has performed numerous experiments, and will soon produce its own Stealth aircraft. A Hong Kong newspaper earlier reported that the Chinese were aiming for a breakthrough in the development of a Stealth fighter by 1990.

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Comment: The Chinese probably do not yet have a prototype Stealth aircraft under development, but it is likely that they are investigating techniques for reducing the radar cross section of existing aircraft. They probably still lack, however, the analytical measurement equipment to pinpoint contributions to radar cross section.

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ISRAEL: Interest Rate Increase

The Bank of Israel is trying to dampen demand for credit by raising the annual prime interest rate from 19 percent to 31 percent, according to the US Embassy. Bank officials state that if the demand for credit does not lessen during the next two or three months further action may be required. In response to the central bank's announcement, the country's largest commercial bank announced an across-the-board increase in interest rates that will set a standard for other commercial lenders.

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Comment: Business leaders have denounced the move, arguing that it runs counter to the government's stated policy of reducing interest rates, will erode business confidence, and will ultimately threaten economic stability. Histadrut, Israel's powerful labor federation, has also questioned the increase, claiming it will merely enhance consumer expectations of higher inflation. The central bank's action may affect Histadrut's willingness to exercise restraint in its wage demands when national wage negotiations open next month. Without a drop in consumer credit demand and in the budget deficit, the bank may be pressed to implement other, equally unpopular restrictive measures.

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In Brief**Americas**

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— **Central American** Core Four ^{on 15 Feb} failed to approve peace plan put forward by **Costa Rica** Sunday . . . agreed to meet within 90 days and invite **Nicaraguan** participation . . . call for regional summit is response to Contadora's recent communique.

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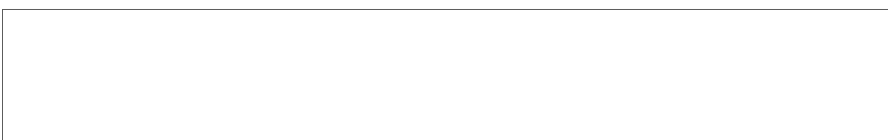
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— **Peru** has increased security at Lima's two prisons, where inmates on hunger strike to protest overcrowding . . . ~~US Embassy says~~ violence increasingly likely . . . more than 250 prisoners were killed last June when government put down riots.

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Africa

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— **Somalia** claims it repulsed **Ethiopian** air, ground attack along border Thursday . . . attack probably supported incursions by Somali dissidents . . . probably retaliation for Somali cross-border raids last week.

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— **Djiboutian** President Gouled will seek new six-year term in unopposed election in April, ~~says US Embassy~~ . . . pro-Western, 70 years old, active . . . announcement likely to mute succession maneuvering.

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Special Analysis**USSR-US:****Gorbachev's Speech**

General Secretary Gorbachev proposed no new arms control initiatives in his address to the peace forum yesterday but instead portrayed the USSR as having as much "new thinking" in foreign policy as in domestic affairs. He characterized US policy as outmoded and threatening.

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Some reporting prior to the three-day conference had suggested Gorbachev was considering presenting new or repackaged arms control initiatives.

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The lack of any new arms initiatives in the speech suggests Soviet leaders may be taking a "wait and see" approach to bilateral relations, preferring to follow policy discussions in Washington before deciding on their next negotiating step. They may also judge the broad approach and somewhat philosophical tone of Gorbachev's remarks as appropriate to the forum, made up largely of intellectuals and professionals.

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The Soviets probably are pleased with their orchestration of the conference. Immediately preceding Gorbachev's address, spokesmen from individual roundtables—most of whom were from the West—issued statements generally endorsing Soviet arms control themes while criticizing US positions. Despite reports of opposing opinions at roundtable discussions, the joint-session condemnations of Washington were the only views broadcast. Gorbachev called the forum a "true embodiment of world public opinion," and Moscow is certain to cite the conference as evidence of broad international support for Soviet arms control positions.

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In responding to a request from a US conference participant to extend the Soviet nuclear testing moratorium, Gorbachev said it has ended but had shown that a nuclear test ban was a "realistic" goal. His remarks suggested the USSR will resume testing soon.

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Although Gorbachev did not address strategic arms control issues in any detail, his remarks made clear that Moscow intends to continue to link sizable cuts in offensive arms to some agreement governing defenses. His call for a treaty banning weapons in space and his claim that consideration of first-phase SDI deployment undermines the ABM Treaty seemed aimed at hindering US efforts to build a consensus among its allies and in Congress in support of the SDI program.

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Special Analysis**ARAB STATES:****Aftermath of Islamic Summit**

Moderate Arabs emerged from the Islamic Conference summit last month more united than they have been in several years, largely because of a common fear that Iran is winning the Persian Gulf war. Their perception that Egypt provides a counter to Iran has accelerated Cairo's informal reentry into the Arab fold, while the radical Arabs are on the defensive over their support for Tehran. Longstanding divisions among the Arab states, however, will continue to preclude near-term solutions for various inter-Arab disputes, movement on the Middle East peace process, or agreement on the timing and agenda of an Arab League summit.

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Kuwait, backed by other moderate Arab states, managed to hold the Islamic summit on schedule and with no major controversy, despite Iranian threats. Egypt came out the big winner—largely at Syria's expense.

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Egyptian President Mubarak has made good progress toward reintegrating Egypt into the Arab fold and winning additional aid from the Gulf moderates without having to renounce Camp David. Kuwait and other Arabs also helped Egypt scuttle a Syrian proposal to rescind Cairo's membership in the Islamic Conference. Mubarak met with King Fahd twice and even with Syrian President Assad, and he made visits to Oman and the United Arab Emirates after the summit.

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Mubarak also improved Egypt's standing in the Middle East peace process by sponsoring a well-received summit resolution favoring a preparatory meeting for an international peace conference. Hoping to find a formula for PLO representation at such a conference, Mubarak also brokered the first talks in a year between Jordan's King Hussein and PLO Chairman Arafat, but these had little more than symbolic results. Agreement between the two is unlikely until Arafat agrees to accept key UN resolutions as the basis for future peace negotiations.

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Meanwhile, Arab League efforts to end the camps war in Lebanon and to build consensus for a full League summit have had little success. The seven-member League committee established to mediate the camps war held several meetings and was able to negotiate a PLO withdrawal from the contested town of Maghdushah but no cease-fire. Kuwaiti efforts to lay the groundwork for an Arab summit fell short when an informal meeting of five heads of state failed to result in agreement on a date or an agenda.

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Radicals on the Defensive

Arab radicals now seem more isolated from other Arab states than at any time in the recent past. Syria has been undercut by its much-publicized links to terrorism, its support for Iran, and its backing of Lebanese Shias fighting against Palestinians in Lebanon. Even Libya disagrees with Syrian policy over the camps war. [REDACTED]

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Assad attended the summit in the hope of lessening his isolation but was unable to curb Egypt's success or reverse the pro-Iraqi tone of summit proceedings on the Gulf war. In addition, the summit passed a PLO-sponsored resolution on the camps war critical of Syria and a strong Kuwaiti resolution condemning terrorism. [REDACTED]

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Assad's hopes of using his dialogue with Lebanese President Gemayel to improve his standing with other Arabs have also gone unrealized so far. Nonetheless, the hardline positions the summit adopted on Arab-Israeli issues indicate that Assad has not lost his ability to block peace initiatives by the moderates. [REDACTED]

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Syria's economic problems have made Assad more vulnerable to pressure from the Gulf states. ~~The US Embassy in Damascus reports that Kuwait probably gave Syria grants of oil and hard currency to lure Assad to the summit, but the oil-rich moderate donors have made no progress in persuading Assad to end his support for Iran.~~

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Libya, too, is vulnerable over Iran and its meddling in Chad. Libyan leader Qadhafi—personally less able to tolerate isolation than Assad—may be planning to modify his Iran policy. The press [REDACTED] indicate that for now, however, Qadhafi seems to have adopted a two-tier approach—making diplomatic overtures to Iraq while continuing his direct military support to Iran. [REDACTED]

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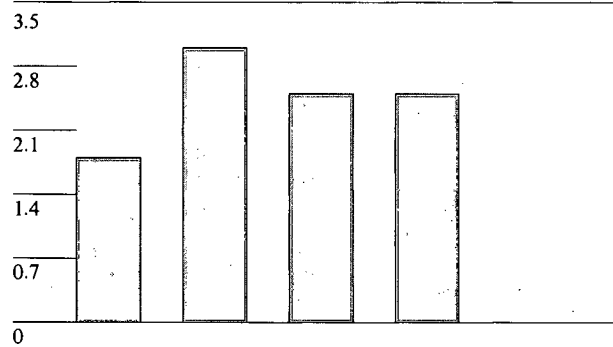
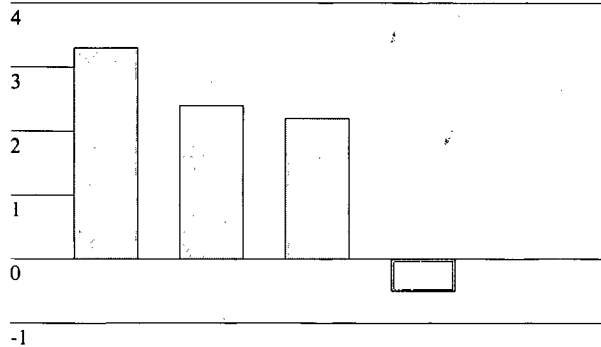
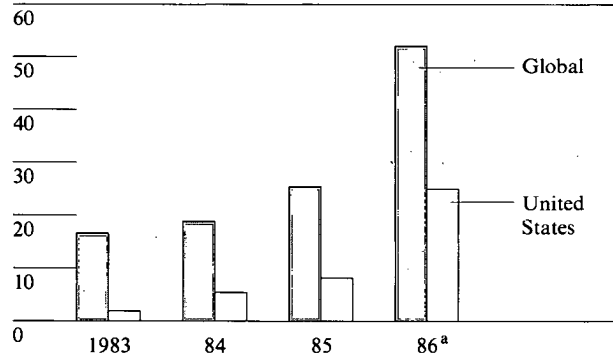
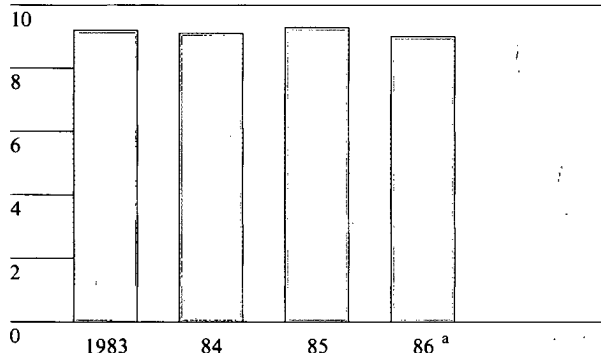
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**West Germany: Economic Performance Under Kohl,
1983-86***Note scale change***Real GNP**
Percent**Consumer Price Inflation**
Percent**Trade Balance**
Billion US \$, f.o.b./c.i.f.**Unemployment Rate**
Percent^a Estimated.

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Special Analysis**WEST GERMANY: Kohl's Economic Program**

Chancellor Kohl is unlikely to propose major economic initiatives during his second four-year term, and this cautious approach will help set the tone for economic management in much of Western Europe

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The government's first-term goals—to control inflation, restrain expenditures, and trim deficits—have largely been met. Its first priority this term is to enact a tax reform package that will provide net tax relief of about 1.5 percent of disposable income by reducing corporate and personal rates while cutting tax preferences and loopholes. The government has the influence and flexibility to ensure implementation of this program.

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Although the coalition parties generally agree on the new government's economic agenda, differences have arisen over the details and timing of the proposals. The Free Democrats and the Christian Socialists, for instance, are urging speedy consideration of the tax proposals. The Christian Democrats, led by Finance Minister Stoltenberg, prefer a more cautious approach.

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Tax cuts will keep fiscal policy—which was contractionary during much of Kohl's first term—more moderate in the late 1980s, even though the Chancellor intends to keep a tight rein on public expenditures. The cuts, when combined with more flexible monetary policies, should allow the economy to sustain a real growth in GNP of 2.0 to 2.5 percent. The government considers this level acceptable for a mature economy with a declining population and has dismissed high unemployment as a structural phenomenon.

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Challenges From Abroad

Kohl's major chief economic headaches are likely to stem from external developments—

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The appreciation of the deutsche mark is rocking export-dependent industries and slowing economic growth. It has become the most pressing issue facing Bonn. The government is, however, willing to absorb substantial revaluation before considering shifts in economic policy, although it may resort to selective intervention in the foreign exchange markets if the mark continues to strengthen.

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Kohl realizes that his reluctance to reflate will continue to create friction with the US and France, but the West Germans see neither country as a model of economic management. Christian Democratic losses in the election, moreover, are likely to make Kohl more responsive to domestic interests. [REDACTED]

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[REDACTED] Kohl's new four-year mandate makes him the economic summit leader with the most secure tenure and will increase his confidence in dealing with foreign governments. [REDACTED]

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DIA Comment: DIA believes Finance Minister Stoltenberg rather than Chancellor Kohl will dominate West German economic policy as he did during the past term. Stoltenberg, along with the Bundesbank, will also take the lead in setting Bonn's monetary policy. During the previous term, Chancellor Kohl rarely involved himself in this area and always deferred to Stoltenberg whenever his cabinet disagreed over issues such as taxes and government spending. This pattern is likely to continue during the government's second term. [REDACTED]

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Leading Recipients of Soviet Arms in 1986

(Value of deliveries in constant 1986 million US dollars)

Recipient	1985	1986	Percent Change
Iraq	2,772	3,718	+ 34
India	1,867	1,802	- 3
Vietnam	2,009	1,624	- 19
Cuba	996	1,426	+ 43
Angola	885	1,020	+ 15
Afghanistan	710	830	+ 17
Libya	997	705	- 29
Syria	1,562	575	- 63
Nicaragua	205	537	+ 162
Algeria	470	450	- 4
Ethiopia	1,111	266	- 76

Methodological Note

The values presented here are on average two-thirds higher than previous estimates.

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The new estimates show that the USSR's arms deliveries are about twice as large as comparable US deliveries. The increase is largest for countries at war or fighting insurgencies that receive large amounts of follow-on items. The new estimates also indicate the grant element in Soviet deliveries is much higher than previously believed.

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Special Analysis**USSR-
THIRD WORLD:****Arms Transfers Down Again in 1986**

The estimated value of Soviet arms transfers to the Third World, in constant terms, dropped from \$16 billion in 1985 to \$14 billion in 1986—far below the 1982 peak of almost \$21 billion. Iraq, Nicaragua, Angola, Afghanistan, and Cuba received more arms than in 1985, while the value of deliveries to most other customers, notably Syria and Libya, dropped sharply. Moscow's likely export of expensive new weapons to the Third World this year may lead to an increase in the value of such transfers for 1987.

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The decline in the constant-dollar value of Soviet arms transfers to the Third World last year reflected both a decline in the tonnage of military cargo for Third World countries and a drop in the numbers of weapons delivered. The number of fighter aircraft exported continued to decline, although Moscow exported the MIG-29 to the Third World for the first time—to Iraq and India.

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The number of tanks delivered fell back to the 1984 level and, for the first time, the number of MI-25 helicopters Moscow sent to the Third World also declined. Exports of warships also were off sharply.

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As in 1985, Iraq received the largest share of Soviet arms in both value and tonnage, and it also was one of Moscow's few major arms clients to have an increase in arms deliveries. A yearend surge in deliveries probably was in anticipation of Iran's "final offensive."

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The trend in Soviet deliveries to those clients fighting insurgencies was mixed. Deliveries to Vietnam, Cambodia, Laos, Ethiopia, and Mozambique dropped by a combined total of more than \$1.5 billion, but deliveries to Nicaragua, Afghanistan, and Angola increased.

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Tight finances again helped constrain imports of Soviet arms by most other major customers. Soviet deliveries to Libya dropped sharply despite the arrival of additional SA-5, SA-8, and SA-13 missiles and of a Koni-class frigate. A sharp drop in deliveries to Syria probably reflected Damascus's lack of money, its need to absorb earlier imports, and political frictions with Moscow.

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The value of deliveries to India, on the other hand, was second only to the record of 1985. New Delhi received a range of new equipment including the MIG-29, BMP-2 armored personnel carrier, Tin Shield radar, Kilo-class submarine, and MI-26 helicopter—none of which had previously been exported to the Third World. [REDACTED]

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Outlook

Soviet arms transfers to the Third World probably will remain depressed, but several factors could raise their value over that for 1986. Several countries are likely to receive expensive new weapons such as the MIG-29, Kilo-class submarine, and T-72M1 tank, which may help raise the value of deliveries. India, for one, is set to receive additional large amounts of such equipment in 1987, and Syria probably will receive the MIG-29. [REDACTED]

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Several other countries—including major customers such as Algeria and minor ones like Tanzania and Peru—have arranged new deals that should lead to increased deliveries in 1987. Iraq and some of Moscow's other clients will need large amounts of munitions and other arms to pursue war efforts and modernize forces. Notably, deliveries to Ethiopia may rise above the minimal levels reached in 1986. The improving antiaircraft capabilities of insurgents in some countries, such as Afghanistan, also may lead to an increase in exports of fighter aircraft and helicopters—both expensive items. [REDACTED]

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